

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
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R 201604Z APR 78
FM AMEMBASSY VIENNA
TO SECSTATE WASHDC 6045
INFO AMEMBASSY PARIS

UNCLAS SECTION 01 OF 02 VIENNA 03703

USOECD
PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: OECD, EFIN, ETRD, ELAB, AU
SUBJECT: AUSTRIAN NATIONAL BANK ACTS IN SUPPORT OF GOA
- INVESTMENT PROMOTION PLAN

REF: VIENNA A-070

1. SUMMARY

ON APRIL 19, 1978, AUSTRIAN NATIONAL BANK (ANB) BOARD OF DIRECTORS DECIDED EFFECTIVE IMMEDIATELY TO INCREASE EXISTING FRAMES FOR OPEN MARKET OPERATIONS AND REDISCOUNT CEILINGS BY AN AGGREGATE AS5 BILLION TO EASE BANKS' LIQUIDITY BOTTLENECKS, ENCOURAGE A LOWERING OF INTEREST LEVELS AND THEREBY TO IMPROVE THE CLIMATE FOR BADLY NEEDED RESTRUCTURING INVESTMENTS IN AUSTRIAN INDUSTRY PROMOTED ALSO BY GOA ACTION. END SUMMARY.

2. ANB ACTION INCLUDES (1) ESTABLISHMENT OF AN AS3 BILLION FRAME FOR SHORT-TERM OPEN MARKET OPERATIONS TO RELIEVE
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MONEY MARKET TENSIONS (2) AN ADDITIONAL FRAME OF AS1 BILLION FOR OPEN MARKET OPERATIONS IN CONNECTION WITH THE AS10 BILLION INDUSTRIAL INVESTMENT FUND TO BE OPERATED BY THE OESTERREICHISCHE INVESTITIONSKREDIT A.G. (OEIK), TO BE USED ONLY IF OEIK UNABLE TO OBTAIN TOTAL OF REQUIRED FUNDS ON CAPITAL MARKETS (REFAIR) (3) INCREASE OF CEILING UP TO WHICH ANB ACCEPTS GOA-GUARANTEED EXPORT BILLS FOR

REDISCOUNTING BY AS1 BILLION TO TOTAL OF AS6 BILLION, AND
(4) LOWERING THE PENALTY RATE PAYABLE BY COMMERCIAL BANKS
TO THE CENTRAL BANK FOR DEFAULTS OF MINIMUM RESERVE PRE-
SCRIPTIONS BY 2.5 PERCENTAGE POINTS TO 8 PERCENT. MORE-
OVER, A GENTLEMEN'S AGREEMENT IS BEING WORKED OUT BETWEEN
ANB AND THE BANKS TO PREVENT LATTER USING THE PRESENT
INCREASE IN THEIR LIQUIDITY FOR INVESTMENT ABROAD.

3. IN COMMENTING ON ANB ACTION AT AN APRIL 19 PRESS
CONFERENCE PRESIDENT KOREN STATED THAT THE DESIRED EFFECTS
OF DEMAND RESTRAINTS INSTITUTED IN 1977 TO LOWER THE CURR-
ENT ACCOUNT DEFICIT ARE NOT YET CLEARLY DISCERNIBLE, BUT
THAT THE PARTIAL INTENSIFICATION OF CREDIT CURBS AS OF
JANUARY 1 OF THIS YEAR TEMPORARILY CAUSED ADJUSTMENT
PROBLEMS AND DISTORTIONS OF THE INTEREST RATE STRUCTURE.
WHILE A SLIGHT EASING OF TENSIONS, REFLECTED IN A DECLINE
OF SHORT TERM MONEY RATES FROM OVER NINE PERCENT TO ABOUT
SEVEN PERCENT, HAS ALREADY BECOME APPARENT LATELY, THE ANB
WANTS TO SPEED UP THIS TREND BY THE ABOVE ACTION. IN
KOREN'S VIEW, THE RESULTANT DOWNWARD PRESSURE ON CREDIT
COSTS SHOULD INVOLVE A GRADUAL LOWERING OF SO-CALLED GRAY
INTEREST RATES, I.E. ABOVE-NORMAL RATES PAID BY BANKS TO
LARGE-SCALE DEPOSITORS. ULTIMATELY, A REDUCTION OF THE
BASIC (MINIMUM) INTEREST RATE ON SAVINGS DEPOSITS FROM
THE PRESENT 4.5 PERCENT LEVEL MIGHT ALSO ENSUE. ACCORDING
TO KOREN, AUSTRIA'S LARGE CURRENT ACCOUNT DEFICIT CALLS
FOR A CONTINUATION OF THE RESTRICTIVE MONEY AND CREDIT
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POLICY. PRESENT ANB ACTION DOES NOT CONTRADICT THIS STANCE
BUT MERELY AIMS AT MITIGATING ADJUSTMENT PROBLEMS AND
PROVIDING MORE ELBOW ROOM FOR THE FINANCING OF STRUCTURAL
REORGANIZATIONS REQUIRED BY AUSTRIAN INDUSTRY.

4. DISCUSSING RELATED MONETARY POLICY ASPECTS, KOREN RULED
OUT A REDUCTION OF THE CENTRAL BANK RATE AT THIS TIME, BUT
MENTIONED THE POSSIBILITY OF A RECONSIDERATION SHORTLY OF
THE LINES, WHICH PRESENTLY LIMITS MONTHLY CREDIT EXPANSION
TO 1.1 PERCENT FOR COMMERCIAL AND 0.55 PERCENT FOR PERSON-
AL LOANS AND IS SCHEDULED TO FORMALLY EXPIRE ON MAY 31,
1978. ALSO INTENDED ARE TALKS WITH FINANCE MINISTRY AUTH-
ORITIES OVER POSSIBILITIES OF IMPORTING CAPITAL ON A MORE
SELECTIVE SCALE I.E. WITH EMPHASIS ON COVERING THE NEED
FOR CHEAP FOREIGN FUNDS PRIMARILY OF THOSE SECTORS WHOSE
VIABILITY GREATLY DEPENDS ON LOWEST-POSSIBLE CAPITAL COSTS,
E.G. ELECTRIC POWER, ROAD CONSTRUCTION, ETC.

5. ANB ACTION CAME ONE DAY AFTER AUSTRIAN CABINET FOR-
MALLY APPROVED SOME DETAILS OF THE GOA INDUSTRIAL INVEST-
MENT PROMOTION PROGRAM ANNOUNCED LAST JANUARY (REFAIR).
MAIN POINT OF THE AGENDA WAS GOA SUBSIDIZATION OF INTEREST

CHARGES BY WHICH COSTS OF INVESTMENT CREDITS MATURING IN
TEN YEARS WILL BE LOWERED BY THREE PERCENTAGE POINTS DURING
A PERIOD OF FIVE YEARS. TO BE ELIGIBLE, INDIVIDUAL CREDITS
SHALL AMOUNT TO A MINIMUM OF AS5 MILLION, THE BORROWER'S
OWN CONTRIBUTION TO 25 PERCENT OF THE PROJECT VALUE.
APPLICATIONS WILL BE EXAMINED BY THE ERP FUND AND FORMALLY
APPROVED BY A SPECIAL MINISTERIAL COMMITTEE TO MEET ONCE
A WEEK. THIS SCHEME, WHICH WILL REQUIRE AGGREGATE BUDGET
FUNDS OF AS4.5 BILLION DURING THE NEXT SEVEN YEARS, WILL
FACILITATE A SUBSIDIZED INDUSTRIAL INVESTMENT VOLUME OF
AT LEAST AS12.5 BILLION EACH IN THE THREE YEARS ENDING

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